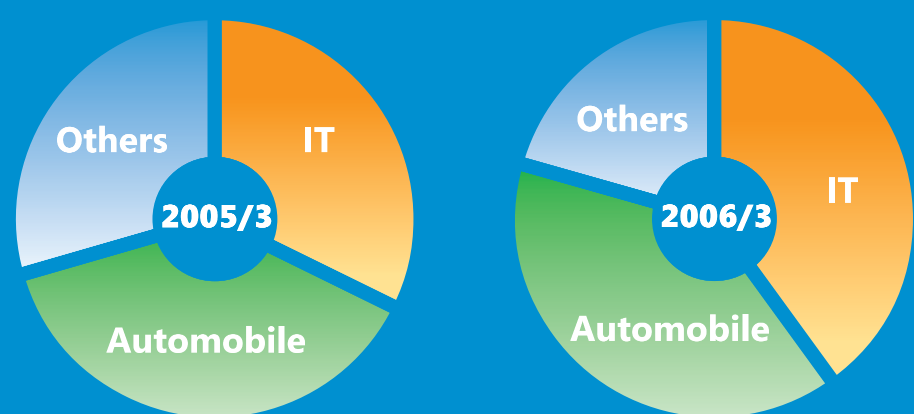
TSUGAMI CORPORATION
1-9-10, Horidome-cho, Nihonbashi,
Chuo-ku,Tokyo 103-0012, JAPAN
TEL.03-3808-1172 FAX.03-3808-1175
http://www.tsugami.co.jp/

TSUGAMI
ANNUAL REPORT 2006
For the year ended March 31, 2006

Corporate Profile

Since its foundation in 1937, Tsugami as the one of the most experienced machine tool companies in Japan has been supplying “high-accuracy, high-speed and high-rigidity” products as a comprehensive manufacturer of small-sized ultraprecision machine tools.
Tsugami has an advantage in that it can supply many types of machine tools, such as automatic lathes, grinding machines, machining centers, rolling machines and lapping machines, and is capable of proposing a comprehensive production system.
Tsugami supports its customers in various aspects. We can make suggestions to improve a company’s efficiency and reduce its costs using technologies in peripheral devices and tooling. In addition, we offer excellent after-services through our group companies.

Sales Breakdown



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Forward-Looking Statements

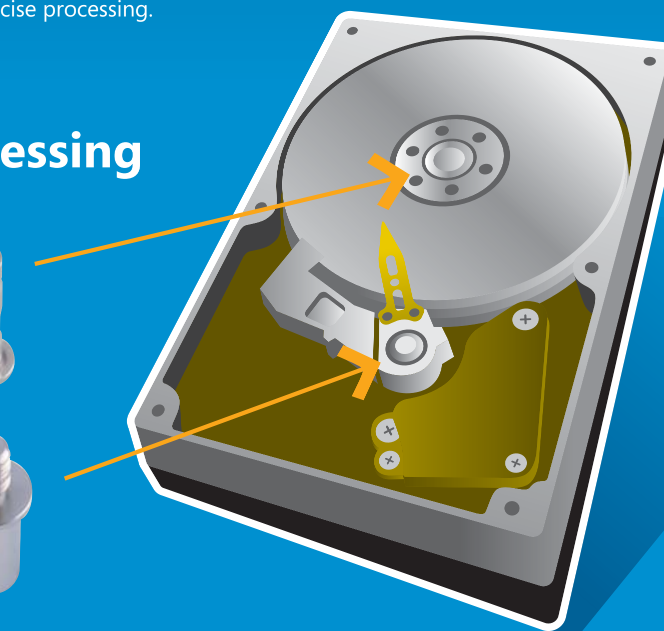
This annual report contains forward-looking statements related to management's projections about future business conditions. Actual business conditions may differ significantly from management's expectations and accordingly affect our sales and profitability. Actual results may differ as a result of factors over which we have no control, including unexpected changes in competitive and economic conditions, government regulations, technology and other factors.

Our Products and Its Superiority

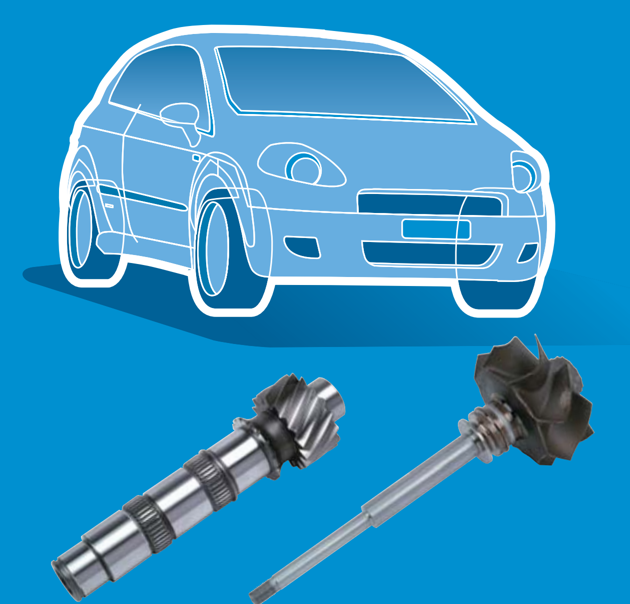
High accuracy and stability even offer 24 hours running operation

Tsugami' s ultraprecise processing technology is so outstanding that it leads the IT industry, an industry in which technology is progressing rapidly. Take the HDDs used in PCs for example, their capacity is increasing year by year while the disks themselves are getting smaller and smaller.
We support this progress in HDD by developing CNC High Precise Automatic Lathes that enable mass processing by the very small unit of less than a micron (submicron). This is how we were able to acquire a large market share in the industry. In addition to the above, our strengths include having various peripheral technologies in machine tools, as well as work materials, tooling technologies and tools, which support high precise processing.

HDD FDB parts processing



Automotive parts



and more

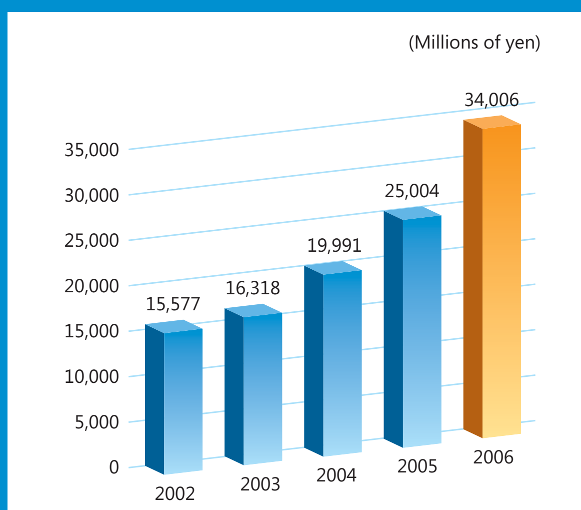
Financial Highlights

For the years ended March 31,
TSUGAMI CORPORATION and its consolidated subsidiaries

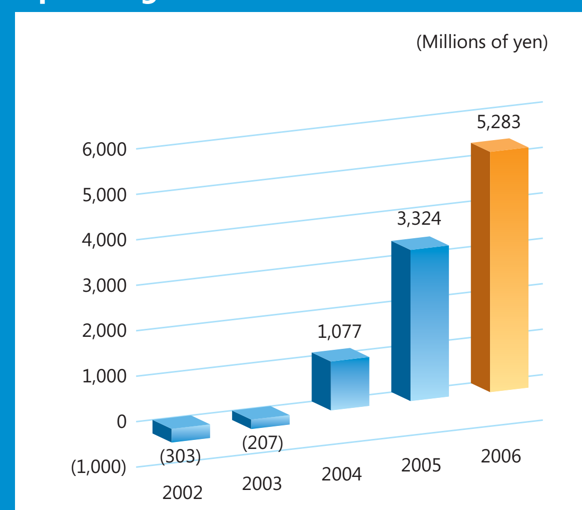
		2005 Millions of yen	2006 Millions of yen	2006 Thousands of U.S.Dollars
Net sales	(Millions of yen)	25,004	34,006	289,491
Operating income	(Millions of yen)	3,324	5,283	44,969
Net income	(Millions of yen)	2,832	5,531	47,081
Net income per share	(yen)	35.02	71.38	0.61
Total assets	(Millions of yen)	27,540	36,827	313,503
Shareholders' equity	(Millions of yen)	18,987	23,272	198,112
Shareholders' equity per share	(yen)	243.41	306.53	2.61

Dollar amounts represent translations at the rate of ¥117.47 = U.S.$1, the rate prevailing on March 31, 2006.

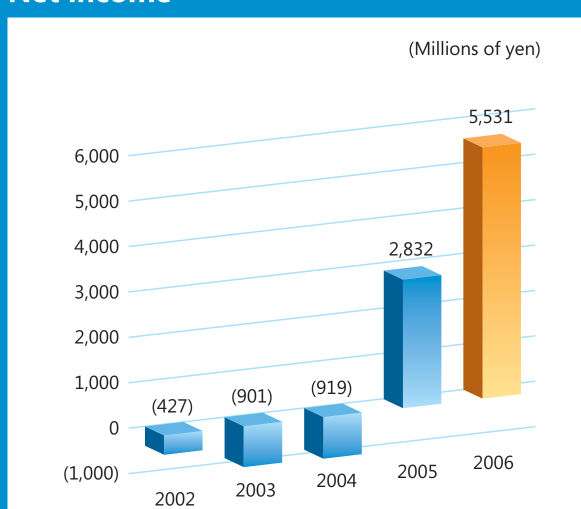
Net sales



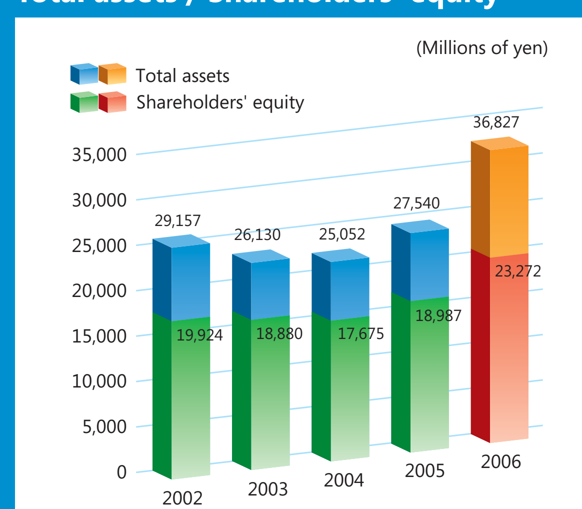
Operating income



Net income



Total assets / Shareholders' equity



Message to Shareholders and Investors

Accuracy, Speed and Rigidity Tsugami is renowned all over the world for its superior precision machine tools.

Tsugami achieved significant increases in both sales and profit over the previous year.

The Japanese economy remained on a recovery path during the year under review. It is mainly due to a moderate increase in consumer spending, a rise in capital spending in the private sector reflecting improved corporate earnings and increased exports.

In the machine tool industry, the overall orders-received trend is growing compared to the previous year. Capital spending in general machinery and IT companies as well as a buoyant automotive industry are favorable conditions for the market trend.

Under such circumstances, we posted higher net sales and net income than those of previous year. The result is led by demands for our know-how in precision processing, which we have cultivated over many years, in highly sophisticated automotive, IT and other industries.

June 2006

T. Nishijima

Takao Nishijima
Chairman and C.E.O.

Interview with the President

Business Overview and Results

Q. ***Will you share with us the overview of earnings for the year ended March 2006?***

A. During Fiscal 2005 (April 1, 2005 to March 31, 2006) there was demand for our know-how in high-precision processing, which we have cultivated over many years, from increasingly sophisticated industries. As a result, we were able to post record earnings with sales increasing 36.0% year-on-year, to 34,006 million yen and operating income rising 59.0% year-on-year, to 5,283 million yen, on a consolidated basis.
Net income jumped 95.3% year-on-year, to 5,531 million yen, including income such as extraordinary income of 2,589 million yen reflecting sales of idle land within sight of the Shinshu Factory.

Machine tools and Tsugami

Q. ***The sales cycle of Tsugami appears to be different from other companies in the machine tool industry. What do you think about it?***

A. What you call machine tools in general have different markets depending on the users. I think that there are different sales cycles for the large, medium and small machine tool markets.
Tsugami belongs to the small machine tool industry, and has expertise in ultraprecision processing. This technology is used in processing electronic parts, with the main market being the ultraprecise parts of personal computers and cellular phones, as well as the precision parts that are needed following the sophistication of automobile engines. Tsugami targets those promising markets in the future, and the Company can be expected to see growing, I believe.

Q. ***The growth rate of sales is remarkable, with a year-on-year increase of 25% in the previous year and 36% in the year under review. What do you think are major reasons behind this?***

A. Tsugami has long been developing cutting-edge high-precision processing technology, but the technology was too precise to be needed at that time. This market had not grown much. That is the major reason why the Company could only achieve sluggish sales growth for a long time. However, the markets that require our ultraprecision processing technology have recently begun to expand at last. It includes the market for fluid dynamic bearing (FDB) motor parts used for hard disk dives (HDDs) and for highly sophisticated automobile engine parts. Our target markets are expected to grow further in the future.
The Company achieved sharp increases in sales in the past two years since the market finally started to require Tsugami’s technology. Demand in the IT industry is expected to increase as that industry becomes more sophisticated, and ultraprecision processing technology will also be needed in other industries besides the automotive parts industry.

Business in Overseas

Q. ***I understand that overseas sales account for nearly 40% of all the sales in the year under review. Will you tell us the future development and strategy for the overseas business of the company?***

A. We expect sales expansion in Asian markets, which have high growth potential in the future and in which companies are proactively making capital investments. In particular, we are focusing on the timely supply of advanced products to China, a country that is likely to have one of the largest shares of global demand for machine tools.
Concerning production, the Company established Precision Tsugami (China) Corporation, a wholly-owned production subsidiary in China. It has started production successfully and which we included in our scope of consolidation from the beginning of January 2006.
Concerning sales, we signed contracts with three dominant local sales agencies, and each of them reinforced their sales and service staff in growing areas including Guangzhou and Shanghai.
In addition, the Company plans to establish sales and service bases in the Shanghai area as our after-service bases in August 2006.
For the South East Asian markets, we increased the number of employees of our subsidiary in Thailand and improved the after-service system there, as part of our efforts to enhance after-services in Thailand, Vietnam, the Philippines and other countries in the region.
For the Korean market, we strengthened our partnership with influential sales agencies and we can expect sales expansion in growing sectors including the automobile and IT industries.
In the US market, we acquired nearly 30% of a local sales agency to enhance our sales and service systems targeting the medical and other industries.
In addition, we are investigating sales-boosting measures for Europe and the so-called BRICs countries (Brazil, Russia, India and China). In India, we are in the middle of selecting a major local sales agency, and we have already received orders for our products.

Production System

Q. ***I see that you completed a new production system in November 2005. Will you tell us about your production system and its capacity?***

A. In October 2004, there was a strong earthquake in the Chuetsu area of Niigata Prefecture, where our main Nagaoka plant is located. Fortunately, the factory escaped with only a small crack in a wall and it passed the seismic qualification test. There were no human casualties. This disaster prompted the Company to try and restructure the production system of the entire group. We established a new factory in the Nagaoka and Shinshu Plants and in China, introducing state-of-the-art production facilities in five factories altogether. We completed this new production system in November 2005.
In addition, we made concerted company-wide efforts to increase productivity by starting in-house production and unit production of parts. As a result, our production capacity has increased by over 50% compared with the previous level.

Measures for further growth Release of new products

Q. ***Seeing as the Company completed two company-wide steps–restructuring the group during Fiscal 2004 and restructuring the production system during Fiscal 2005–will you tell us the main measures you plan to implement during Fiscal 2006?***

A. In the current business year, the Company plans to release 10 new products. It is the first time that the Company has attempted to do this since its establishment. Our basic stance is to target the growing sectors where companies are keen to make capital investment. For example, we will focus on products for the automotive industry, which is experiencing further digitization; FDBs and small-sized motors for the electronic industry; and high precision processing of small parts for the communications and medical industries.
Specifically, we will introduce four machine models mainly for the IT industry, five machine models for the automotive and other industries, and one microfabricated machine for the semiconductor industry. I believe that these new products will further consolidate our position as the world' s best in the high-precision processing industry.
We have introduced 4 new products at the Tsugami Private Show held in July 2006 at the Tsugami Nagaoka plant in Japan and we are scheduled to introduce additional 6 new products at JIMTOF (Japan International Machine Tool Fair) to be held at Tokyo Big Sight in November 2006.
We will continue to challenge cutting-edge technology ahead of the market' s needs. I believe that high-precision processing technology will be in demand in increasingly diversified industries in the future. Therefore, it is important to constantly ensure that we have a competitive advantage by using state-of-the-art technology.

Return to Shareholders

Q. ***You resumed dividend payments from the interim period of Fiscal 2004. Will you tell us about your policy on returning profits to shareholders?***

A. As I described above, we were able to achieve favorable earnings for Fiscal 2005 and we paid a dividend of 8 yen per share annually, including the interim dividend.
For future dividend payments, we will focus not only on making steady dividend payments but also on reinforcing our performance-based dividend policy. I would appreciate continued support and guidance from our shareholders and investors.

Global Network

Nagaoka plant

Shinshu plant

China plant

Niigata plant

Takami plant

Plant

Japan

Nagaoka plant	Nagaoka city, Niigata-pref.,
Shinsyu plant	Saku city, Nagano-pref.,
Niigata plant	Niigata city, Niigata-pref.,
Takami plant	Nagaoka city, Niigata-pref.,

China

China plant	(Precision Tsugami (China) Co.) Pinghu Economic Development Zone, Zhejiang, China

Subsidiaries, Affiliates and Agents

Subsidiaries

Tsugami Machinery Co., Ltd.
Tsugami Shimamoto Ltd.
Tsugami General Service Co., Ltd
Tsugami Tool Co., Ltd.
Tsugami Precision Co., Ltd.
Precision Tsugami (China) Corporation.
Tsugami (Thai) Co., Ltd.

Affiliates

U.S.A.

North America	Rem Sales Incorpoated

Agents

Asia

Singapore & Malaysia	Henko Industries Pte. Ltd.
Thailand	Tsugami (Thai) Co.,Ltd.
Hong Kong	Kowloon Engineering Ltd.
Taiwan R.O.C.	Great Tung Ching Trading Co.
Philippines	Mesco Inc.

Financial Summary

Ten-Year Financial Summary

Millions of yen	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2006 Thousands of US Dollars
Net sales	15,466	20,448	12,035	12,288	21,735	15,577	16,318	19,991	25,004	34,006	289,491
Operating income (loss)	(264)	306	(331)	(631)	1,258	(303)	(207)	1,077	3,324	5,283	44,969
Operating income (loss) as a percentage of net sales	(1.7)	1.5	(2.7)	(5.1)	5.8	(1.9)	(1.3)	5.4	13.3	15.5	15.5
Income (loss) before income taxes	(1,262)	(1,999)	(3,190)	(1,166)	1,266	(470)	(856)	(889)	2,934	6,851	58,317
Net income (loss)	(1,316)	(2,062)	(3,203)	(1,182)	1,180	(427)	(901)	(919)	2,832	5,531	47,081
Current assets	21,878	22,844	17,319	18,277	22,259	20,207	18,119	17,961	20,498	26,395	224,694
Current Liabilities	5,170	6,857	3,260	4,981	9,713	8,042	6,368	6,452	7,646	12,169	103,592
Total assets	31,769	31,402	24,570	25,482	31,481	29,157	26,130	25,052	27,540	36,827	313,503
Shareholders' equity	26,230	24,184	20,981	19,719	20,963	19,924	18,880	26,130	18,987	23,272	198,112
Per share data (Yen):											
Net income (loss)											
Basic	(14.81)	(23.19)	(35.99)	(13.28)	13.28	(4.81)	(10.17)	(10.71)	35.02	71.38	0.61
Diluted	-	-	-	-	-	-	-	-	34.99	70.81	0.60
Cash dividents	-	-	-	-	-	-	-	-	5.00	8.00	0.07
Shareholders' equity	295.00	271.75	235.76	222.74	235.70	224.03	216.12	213.36	243.41	306.53	2.61

Dollar amounts represent translations at the rate of ¥117.47 = U.S.$1, the rate prevailing on March 31, 2006.

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Financial Review

Business Results

Net sales

Based on our know-how in precision processing which we have cultivated over many years, Tsugami continued to supply high-precision processing machines that are designed to meet the sophisticated needs of the automotive, IT and other industries. At the same time, the Company introduced new products such as CNC Precision Automatic Lathes C15, BE12, BE18, BM16E and the CNC Precision Cylindrical Grinding Machine G30FB. The Company implemented proactive sales promotion activities, such as showing products in exhibitions at home and abroad, and advertising directly to users with the emphasis on these new products. As a result, net sales for Fiscal 2005 increased 36.0% year-on-year, to 34,006 million yen.

Domestic sales amounted to 20,461 million yen, up 24.7% year-on-year, and exports increased 57.7% year-on-year, to 13,545 million yen due to expanded sales in Asia. Our export ratio was 39.8%.

Profit and loss

In the year under review, operating income increased 58.9% year-on-year, to 5,283 million yen as a result of our efforts to start in-house production by leveraging our enhanced production capacity and further promoting efficiency and cost reduction.

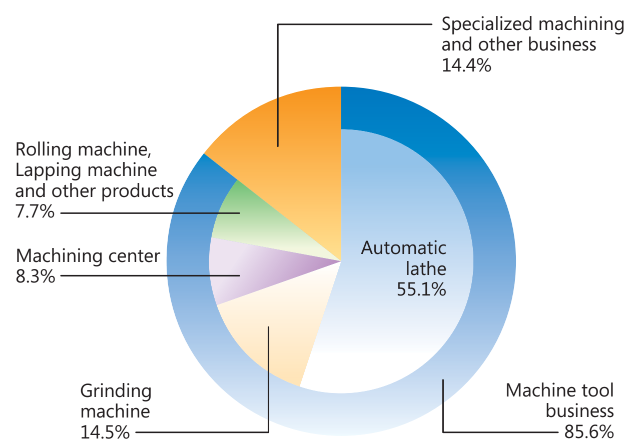
Net income reached 5,531 million yen, up 95.3% year-on-year, due to such things as extraordinary income of 2,589 million yen including sale of idle land within sight of the Shinshu plant.

Result by business segment

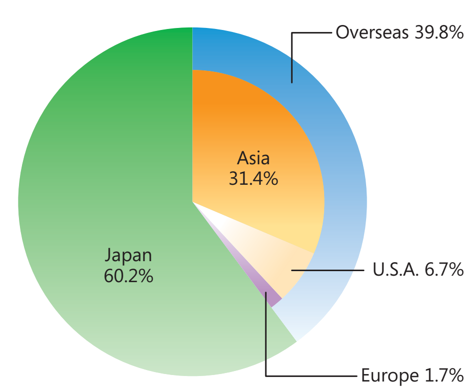
(Millions of yen)

		2004	2005	2006
Machine tool business				
	Net sales	16,620	21,059	29,097
	Operating income	1,313	3,436	4,988
Specialized machining and other business				
	Net sales	3,370	3,945	4,909
	Operating income	521	735	900

Sales by business and product



Sales breakdown by region



Cash Flows

Cash and cash equivalents on a consolidated basis for Fiscal 2005 decreased 1,315 million yen from the previous year, and the ending balance was 2,797 million yen.

Cash flows from operating activities

Net cash provided by operating activities increased 1,551 million yen. This was mainly because of an increase in funds due inflows of 6,851 million yen in income before income taxes, 581 million yen in depreciation and amortization and 2,468 million yen in trade notes and accounts payable, and a decrease in funds due to an outflow of 3,879 million yen in trade notes and accounts receivable and an outflow of 2,464 million yen in inventories, as well as an expenditure of 2,430 million yen in adjustments of gain on sales of property, plant and equipment.

Cash flow from investing activities

Net cash used in investing activities decreased 1,020 million yen from the previous year. This was mainly due to an outflow of 2,972 million yen to fund the purchase of property, plant and equipment and an inflow of 2,113 million yen from sales of property, plant and equipment.

Cash flows from financing activities

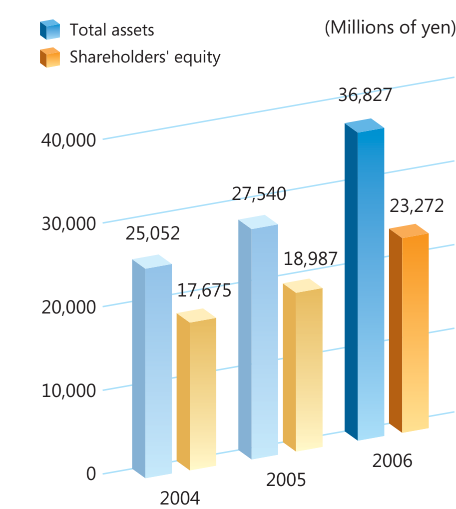
Net cash used in financing activities decreased 1,846 million yen. This was attributed to the outflows of 1,381 million yen and 465 million yen to fund the purchase of common stock in treasury and dividends payments, respectively.

Cash flows indices

	2003	2004	2005	2006
Net worth ratio (%)	72.2	70.6	68.9	63.2
Net worth ratio based on market value (%)	40.1	96.9	126.3	195.6
Number of years for debt redemption	0.4	-	-	-
Interest coverage ratio	95.12	226.26	-	-

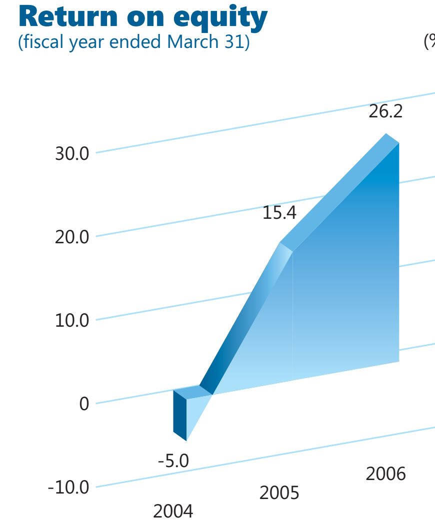
(Notes)
Net worth ratio (%): Net worth/total assets
Net worth ratio based on market value (%): Total market capitalization/total assets
Number of years for debt redemption: Interest-bearing debts/operating cash flows
Interest coverage ratio: Operating cash flows/interest payment
- All indices were computed using the consolidated financial figures.
- Total market capitalization was computed based on the closing stock price at period-end multiplied by number of outstanding shares at period-end (after deducting treasury stock).
- Operating cash flows represent cash flows from operating activities on the consolidated statements of cash flows. Interest-bearing debts represent all debts on the consolidated balance sheets, including notes receivable discounted, for which interest is paid. In addition, interest payment represents the amount of interest paid on the consolidated statements of cash flows.

Total assets/Shareholders' equity



Return on equity

(fiscal year ended March 31)



Consolidated Balance Sheets

(March 31, 2005 and 2006)

ASSETS	Millions of yen 2005	Millions of yen 2006	Thousands of U.S.dollars (Note 1) 2006
Current assets:			
Cash and deposits (Note 3)	¥ 4,152	¥ 2,847	$ 24,234
Trade notes and accounts receivable	10,511	14,390	122,497
Inventories (Note 5)	5,839	7,935	67,545
Deferred tax assets (Note 7)	–	416	3,541
Other	79	886	7,545
Allowance for doubtful accounts	(83)	(79)	(668)
Total current assets	**20,498**	**26,395**	**224,694**
Property, plant and equipment:			
Land	801	643	5,473
Buildings and structures	7,195	7,524	64,056
Machinery and equipment	9,463	9,038	76,941
Other	869	804	6,842
Accumulated depreciation	(13,548)	(10,973)	(93,412)
Net property, plant and equipment	**4,780**	**7,036**	**59,900**
Intangible assets:	21	17	146
Investments and other assets:			
Investment securities (Note 4)	1,619	2,628	22,371
Investments in and advances to unconsolidated subsidiaries and affiliated companies	504	658	5,602
Other	118	93	790
Total investments and other assets	**2,241**	**3,379**	**28,763**
Total fixed assets	**7,042**	**10,432**	**88,809**
Total assets	**¥27,540**	**¥36,827**	**$313,503**

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2005	Millions of yen 2006	Thousands of U.S.dollars (Note 1) 2006
Current liabilities:			
Trade notes and accounts payable	¥ 6,506	¥ 8,975	$ 76,402
Income taxes payable	143	1,760	14,987
Accrued bonuses	311	372	3,166
Other	686	1,062	9,037
Total current liabilities	**7,646**	**12,169**	**103,592**
Long-term liabilities:			
Deferred tax liabilities (Note 7)	123	553	4,704
Accrued pension and severance costs (Note 6)	649	695	5,921
Retirement benefits for directors and corporate auditors	77	42	357
Other	58	96	817
Total long-term liabilities	**907**	**1,386**	**11,799**
Total liabilities	**8,553**	**13,555**	**115,391**
Contingent liabilities (Notes 11)			
Shareholders' equity (Notes 8, 9 and 16):			
Common stock, no-par-value	10,599	10,599	90,231
Authorized: 320,000,000 shares in 2006 and 160,000,000 shares in 2005			
Issued: 89,019,379 shares in 2006 89,019,379 shares in 2005			
Capital surplus	8,013	8,011	68,197
Retained earnings	2,835	7,872	67,010
Net unrealized profit on investment securities	179	805	6,854
Shares of common stock in treasury 13,099,280 shares in 2006 11,016,454 shares in 2005	(2,639)	(4,015)	(34,180)
Total shareholders' equity	**18,987**	**23,272**	**198,112**
Total liabilities and shareholders' equity	**¥27,540**	**¥36,827**	**$313,503**

Consolidated Statements of Income

(Years ended March 31, 2005 and 2006)

	Millions of yen 2005	Millions of yen 2006	Thousands of U.S.dollars (Note 1) 2006
Net sales	¥25,004	¥34,006	$289,491
Cost of sales (Note 12)	18,806	25,507	217,139
Gross profit	6,198	8,499	72,352
Selling, general and administrative expenses (Note 12)	2,874	3,216	27,383
Operating income	3,324	5,283	44,969
Other income (expenses)			
Gain on sales of property, plant and equipment	3	2,430	20,689
Earthquake disaster loss	(461)	–	–
Removal expenses of machinery and equipment	–	(155)	(1,319)
Loss on disposal of property, plant and equipment	(5)	(704)	(5,990)
Loss on disposal of inventories	(97)	(93)	(796)
Other	170	90	764
Income before income taxes	2,934	6,851	58,317
Current income taxes (Note 7)	95	1,736	14,777
Deferred	7	(416)	(3,541)
Income Taxes	102	1,320	11,236
Net income	¥ 2,832	¥ 5,531	$ 47,081
Per share of common stock (Note 15)	Yen	Yen	Dollar (Note 1)
Shareholders' equity	¥243.41	¥306.53	¥2.61
Net income -basic	35.02	71.38	0.61
-diluted	34.99	70.81	0.60
Cash dividends, applicable to earnings of the year	5.00	8.00	0.07

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

(Years ended March 31, 2005 and 2006)

	Thousands	Millions of yen				
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized profit on investment securities	Treasury stock, at cost
Balance at March 31, 2004:	**89,019**	**¥10,599**	**¥9,126**	**¥ (989)**	**¥105**	**¥(1,165)**
Net income				2,832		
Net unrealized profit on investment securities					74	
Shares of common stock in treasury						(1,474)
Reversal of capital surplus due to covering of loss			(1,113)	1,113		
Increase due to increase in consolidated subsidiaries				39		
Cash dividends paid				(158)		
Decrease due to decrease in consolidated subsidiaries				(2)		
Balance at March 31, 2005	**89,019**	**10,599**	**8,013**	**2,835**	**179**	**(2,639)**
Net income				5,531		
Net unrealized profit on investment securities					626	
Shares of common stock in treasury						(1,376)
Cash dividends paid				(465)		
Bonuses paid to directors and corporate auditors				(29)		
Loss on disposal of treasury stock			(2)			
Balance at March 31, 2006	**89,019**	**¥10,599**	**¥8,011**	**¥7,872**	**¥805**	**¥(4,015)**

	Thousands of U.S. dollars (Note1)				
	Common stock	Capital surplus	Retained earnings	Net unrealized profit on investment securities	Treasury stock, at cost
Balance at March 31, 2005	**$90,231**	**$68,216**	**$24,130**	**$1,524**	**$(22,468)**
Net income			47,081		
Net unrealized profit on investment securities				5,330	
Shares of common stock in treasury					(11,712)
Cash dividends paid			(3,954)		
Bonuses paid to directors and corporate auditors			(247)		
Loss on disposal of treasury stock		(19)			
Balance at March 31, 2006	**$90,231**	**$68,197**	**$67,010**	**$6,854**	**$(34,180)**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(Years ended March 31, 2005 and 2006)

	Millions of yen 2005	Millions of yen 2006	Thousands of U.S.dollars (Note 1) 2006
Cash flows from Operating activities:			
Income before income taxes	¥2,934	¥6,851	$58,317
Depreciation and amortization	572	581	4,944
Amortization of consolidation goodwill	(131)	–	–
Loss on disposal of inventories	97	93	796
Earthquake disaster loss	461	–	–
Change in allowance for doubtful accounts	(144)	(5)	(42)
Change in accrued pension and severance costs	12	46	397
Interest and dividend income	(29)	(30)	(259)
Interest expense	0	0	0
Gain on sales of property, plant and equipment	–	(2,430)	(20,689)
Loss on disposal of property, plant and equipment	–	704	5,990
Change in trade notes and accounts receivable	(181)	(3,879)	(33,019)
Change in inventories	(676)	(2,464)	(20,977)
Change in trade notes and accounts payable	993	2,468	21,012
Bonuses paid to directors and corporate auditors	–	(29)	(247)
Other	387	271	2,313
Subtotal	4,295	2,177	18,536
Proceeds from interest and dividend income	29	30	259
Payment of interest	(0)	(0)	(0)
Payment of earthquake disaster loss	(167)	(104)	(884)
Payment for dismantlement of buildings	–	(191)	(1,633)
Payment of removal expenses of machinery and equipment	–	(155)	(1,319)
Payment of income taxes	(48)	(206)	(1,755)
Net cash provided by operating activities	4,109	1,551	13,204
Cash flows from Investing activities:			341
Proceeds from time deposits	40	40	(426)
Payment for time deposits	(40)	(50)	(25,301)
Payment for purchase of property, plant and equipment	(194)	(2,972)	17,987
Proceeds from sales of property, plant and equipment	–	2,113	(531)
Payment for purchase of investment securities	(5)	(62)	1,272
Proceeds from sales of investment securities	–	150	–
Payment for additional stock purchases of consolidated subsidiaries	(3)	–	(1,360)
Payment for stock purchases of unconsolidated subsidiaries	(111)	(160)	–
Payment for stock purchases of affiliated companies	(209)	–	(1,048)
Payment for loans receivable	(52)	(123)	463
Proceeds from loans receivable	2	54	(86)
Other	14	(10)	(8,689)
Net cash used in investing activities	(558)	(1,020)	
Cash flows from Financing activities:			0
Proceeds from sales of shares of common stock in treasury	–	0	(11,759)
Payment for purchase of shares of common stock in treasury	(1,478)	(1,381)	(3,954)
Dividends payments	(159)	(465)	(15,713)
Net cash used in financing activities	(1,637)	(1,846)	
			(11,198)
Net increase (decrease) in cash and cash equivalents	1,914	(1,315)	35,006
Cash and cash equivalents at beginning of year	2,195	4,112	–
Cash and cash equivalents of newly consolidated subsidiaries	3	–	$23,808
Cash and cash equivalents at end of year (Note 3)	¥4,112	¥2,797	

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Tsugami Co., Ltd and Consolidated Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Tsugami Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is more familiar outside Japan. In addition, the accompanying notes include additional information which is not required under accounting principles and practices generally accepted in Japan. U.S. dollar amounts in the accompanying consolidated financial statements are included solely for convenience, at ¥117.47=U.S.$1, the exchange rate on March 31, 2006. The translation should not be construed as a representation that yen amounts have been or could be converted into U.S. dollars at that or any other rate.

For comparison, certain amounts reported for the previous financial statements are retrospectively adjusted in accordance with changes in classification.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) **Principles of consolidation**

The accompanying consolidated financial statements include the accounts of 5 subsidiaries as of March 31, 2005 and 2006. The remaining 2 subsidiaries and 2 affiliates as of March 31, 2005 and 2006, whose total assets, net sales and net income are immaterial in relation to the comparable amounts in these statements have been excluded.

All significant inter-company transactions, accounts and unrealized profits have been eliminated. Investments in the affiliate and unconsolidated subsidiaries, not significant in amount, are carried at cost or less. Where there has been permanent impairment in the value of investments, the Company has written down such investments.

(2) **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, available funds on deposit and short-term, highly liquid investments that are readily convertible to cash and with original maturities of three months or less, and substantially free from price fluctuation risk.

(3) **Securities**

Available-for-sale securities with determinable market value are stated at market value. Net unrealized profit on investment securities is accounted for as a component of shareholders' equity. Cost of securities sold is determined by the moving average method. Available-for-sale securities without determinable market value are stated at cost determined by the moving average method.

(4) **Inventories**

Inventories of the Company and its consolidated subsidiaries are stated at cost determined by the moving average method.

(5) **Property, plant and equipment**

Property, plant and equipment are stated at cost. Depreciation of the Company and its consolidated subsidiaries is principally computed by the declining-balance method over the estimated useful lives of the respective assets. However, buildings purchased on and after April 1, 1998, excluding fittings and equipment, are depreciated on a straight-line basis.

The significant useful lives are summarized as follows:

Buildings and structures	15-38 years
Machinery and equipment	10 years

(6) **Intangible assets**

Intangible assets are stated at cost less accumulated amortization. Capitalized costs of software for internal use and other intangible assets are amortized using the straight-line method over the estimated lives.

(7) **Leases**

Finance leases which do not transfer ownership to lessee are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

(8) **Allowance for doubtful accounts**

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. Provision is made based on the historical default rates for non-specific ordinary receivables and in the amount deemed necessary for specific receivables whose recoverability is highly doubtful, after due consideration of recoverability on an individual basis.

(9) **Allowance for employees bonuses**

Provision is made in an amount deemed necessary at the term-end based on the estimated amount of bonus payments.

(10) **Accrued pension and severance costs**

Accrued pension and severance costs are provided based on an estimate of the pension and severance obligation and the plan assets at the end of the year.

Net transition obligation in the amount of ¥2,180 million ($18,558 thousand) is amortized to income over 15 years on a straight-line basis.

Actuarial gains and losses are charged to income over 5 years, which are shorter than the averaged remaining service period of employees, on a straight-line basis, beginning with the term following that in which differences were incurred.

(11) **Retirement benefits for directors and corporate auditors**

Provision is made in the maximum amount stipulated in the internal regulations for certain subsidiaries.

(Additional information)

On April 15, 2005, the Board of Directors passed a resolution to abolish lump-sum payments of allowances to retiring directors and corporate auditors, which was approved at the regular general meeting of shareholders held on June 24, 2005.

Shareholders also approved the payments for directors and corporate auditors at their retirement in the amount corresponding to each service period up to the time of abolition in accordance with internal regulations.

At the term-end, the Company reversed allowance for retirement of directors and corporate auditors in the full amount and recorded accrued expenses in the amount of ¥49 million ($421 thousand) for the future payments to directors and corporate auditors in Other long-term liabilities.

(12) **Foreign currency translation**

In accordance with the accounting standards of Japan for foreign currency transactions, assets and liabilities denominated in foreign currencies of the Company and its consolidated subsidiaries are principally translated into yen at the rate of exchange in effect at the balance sheet dates.

(13) **Income taxes**

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(14) **Amounts per share of common stock**

Shareholders' equity per share is based on the number of shares outstanding at the respective balance sheet dates.

The computation of basic net income per share is based on the weighted average number of share of common stock outstanding during the respective fiscal year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during the respective fiscal year and assuming the exercise of stock option.

Cash dividends per share represent the cash dividends declared as applicable to the respective year together with the interim cash dividends paid.

3 CASH AND CASH EQUIVALENTS

Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash and time deposits	¥4,152	¥2,847	$24,234
Less:Time deposits with maturities exceeding three months	(40)	(50)	(426)
Cash and cash equivalents	¥4,112	¥2,797	$23,808

4 INVESTMENT SECURITIES

The aggregate acquisition cost and fair value of securities with fair value (equity and debt securities) as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Acquisition cost	¥1,243	¥1,210	$10,305
Fair value	1,545	2,568	21,863
Unrealized gain	¥302	¥1,358	$11,558

The aggregate acquisition cost of securities without fair value was ¥63 million as of March 31, 2005 and ¥43 million ($370 thousand) as of March 31, 2006.

Avaliable-for-sale securities sold during the year ended March 31, 2005 and 2006 were as follows :

Millions of yen						Thousands of U.S. dollars		
2005			2006			2006		
Sales amount	Total gain	Total loss	Sales amount	Total gain	Total loss	Sales amount	Total gain	Total loss
–	–	–	¥149	¥54	–	$1,272	$462	–

5 INVENTORIES

Inventories as of March 31, 2005 and 2006 consisted of the following items:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Goods and finished products	¥788	¥1,227	$10,444
Work in process	4,046	5,442	46,328
Raw materials and supplies	1,005	1,266	10,773
	¥5,839	¥7,935	$67,545

6 ACCRUED PENSION AND SEVERANCE COSTS

The Company and its domestic subsidiaries use a combined funded non-contributory tax-qualified retirement pension plans and lump-sum retirement benefit plans.

(1) **Actuarial present value of projected benefit obligations**

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Actuarial present value of projected benefit obligations	¥(2,573)	¥(2,491)	$(21,206)
Plan assets	169	262	2,233
Net transition obligation	1,401	1,262	10,739
Unrecognized net actuarial loss	354	272	2,313
Accrued pension and severance costs	¥(649)	¥(695)	$(5,921)

Consolidated subsidiaries employ the simplified method for calculation of retirement benefit obligations.

(2) **Components of periodic pension and severance cost**

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service cost	¥148	¥131	$1,117
Interest cost	49	36	306
Expected return on plan assets	(3)	(3)	(25)
Amortization of net transition obligation	139	139	1,188
Actuarial loss	56	85	720
Periodic pension and severance cost	¥389	¥388	$3,306

Pensions and severance cost of consolidated subsidiaries are included in service cost.

(3) **Major assumptions at the beginning of year**

	2005	2006
Allocation method of pension and severance costs	Straight-line basis	Straight-line basis
Discount rate (%)	1.5	1.5
Expected rate of return on plan assets (%)	2.0	2.0
Period of amortization of net actuarial loss	5 years beginning with the following period when actuarial differences incurred	5 years beginning with the following period when actuarial differences incurred
Period of recognition of transition obligation (year)	15	15

7 INCOME TAXES

The Company and its consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in statutory tax rate of approximately 40.7% in 2005 and 2006, respectively. The effective tax rate reflected in the consolidated statements of income for the years ended March 31, 2005 and 2006 differ from the statutory tax rate for the following reasons:

	2005	2006
Statutory tax rate	40.7%	40.7%
(Reconciliation)		
Decline in valuation allowance	(38.1)	(21.0)
Inhabitants' taxes	0.8	0.3
Tax credit for increased research expenses	–	(0.7)
Non-deductible expenses such as entertainment expenses	0.4	0.6
Non-taxable income such as dividend income	(0.1)	(0.1)
Other, net	(0.2)	(0.5)
Effective tax rate	3.5%	19.3%

The significant components of deferred tax assets and liabilities as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Allowance for doubtful accounts	¥ 98	¥ 37	$ 314
Accrued employees' bonuses	127	151	1,289
Accrued retirement benefits	248	283	2,405
Loss on valuation of investment securities	373	381	3,242
Loss on valuation of inventories	52	24	209
Loss on impairment of fixed assets	215	214	1,822
Tax loss carryforwards	1,127	–	–
Accrued enterprise taxes	–	150	1,280
Other	149	149	1,264
Gross deferred tax assets	2,389	1,389	11,825
Less valuation allowance	(2,389)	(973)	(8,282)
Total deferred tax assets	–	416	3,543
Deferred tax liabilities:			
Net unrealized gain on securities	(123)	(553)	(4,704)
Deferred tax liabilities	(123)	(553)	(4,704)
Net deferred tax liabilities	¥ (123)	¥ (137)	$(1,161)

8 SHAREHOLDERS' EQUITY

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital, which is included in capital surplus.

The Company may transfer portions of additional paid-in capital to stated capital by resolutions of the Board of Directors. The Company may also transfer a portion of undistributed retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Retained earnings include a legal reserve provided in accordance with the provisions of the Code. This reserve is not available for dividends, but it may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semiannual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Code.

Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account. The amount of any such excess is available for appropriation by resolution of the shareholders.

9 STOCK OPTION PLANS

The following table summarized terms and conditions of stock option plans:

	The maximum number of shares to be issued	Exercisable period of the stock option	Exercise price per share
Stock option I (stock purchase right)	650,000	From July 1.2006 to June 30.2009	¥286 $2.43
Stock option II (stock purchase right)	360,000	From July 1.2007 to June 30.2010	¥575 $4.89
Stock option III (based compensation plan)	212,000	From July 1.2006 to June 30.2025	¥1 $0.01
Stock option IV (stock purchase right)	340,000	From July 4.2008 to June 30.2011	¥759 $6.46
Stock option V (based compensation plan)	72,000	From July 21.2006 to June 20.2026	¥1 $0.01

10 LEASE INFORMATION

Finance leases which do not transfer ownership are as follows:

(1) **Acquisition costs, accumulated depreciation and balance**

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Machinery and equipment			
Acquisition costs	¥142	¥73	$622
Accumulated depreciation	115	57	488
Balance	27	16	134
Other tangible fixed assets			
Acquisition costs	166	169	1,436
Accumulated depreciation	109	114	970
Balance	57	55	467
Intangible assets			
Acquisition costs	29	25	217
Accumulated depreciation	11	12	108
Balance	¥18	¥13	$109

Acquisition costs are calculated using the interest method, as the ratio of the term-end balance of future lease rental payments to the term-end balance of tangible fixed asset is low.

(2) **Future lease rental payments of finance leases**

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current portion	¥ 36	¥29	$249
Non-current portion	65	54	462
Total	¥101	¥83	$711

Future lease rental payments are calculated using the interest method, as the ratio of the term-end balance of future lease rental payments to the term-end balance of tangible fixed assets is low.

(3) **Lease rental payments and depreciation**

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Lease payments	¥46	¥38	$322
Estimated depreciations expense	46	38	322

(4) **Calculation of depreciation**

The amounts equivalent to depreciation are calculated by assuming leasing periods as useful lives and residual value as zero on a straight-line basis.

11 CONTINGENT LIABILITIES

Contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Bills of exchange without L/C	¥1,521	¥2,406	¥20,486
Transfer of notes for endorsement	48	65	556

12 RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in cost of sales and general and administrative expenses are ¥172 million and ¥511 million ($4,351 thousand) for the years ended March 31, 2005 and 2006, respectively.

13 SEGMENT INFORMATION

The Group is primarily engaged in the sales and manufacture of products in two major segments.
1) Machine tool: CNC precision automatic lathes, CNC cylindrical grinding machines, machining centers, precision turning centers, and lapping machines.
2) Specialized machining and other business: specialty equipment, gauge blocks, roll dies, and screw inserts
Business segments and overseas sales of the group for the years ended March 31 2005 and 2006 are as follows:

(a) **Business segments**

Year ended March 31, 2005	Millions of yen				
	Machine tool business	Specialized machining and other business	Total	Corporate and elimination	Consolidation
Sales and operating income:					
Sales to third parties	¥21,059	¥3,945	¥25,004	¥ –	¥25,004
Intersegment sales and transfer	–	–	–	–	–
Total sales	21,059	3,945	25,004	–	25,004
Cost of revenue from operations	17,623	3,210	20,833	847	21,680
Operating income	¥ 3,436	¥ 735	¥ 4,171	¥ (847)	¥ 3,324
Assets, depreciation and capital expenditure:					
Assets	¥18,412	¥2,834	¥21,246	¥6,294	¥27,540
Depreciation	401	98	499	72	572
Capital expenditure	243	107	350	–	350

Year ended March 31, 2006	Millions of yen				
	Machine tool business	Specialized machining and other business	Total	Corporate and elimination	Consolidation
Sales and operating income:					
Sales to third parties	¥29,097	¥4,909	¥34,006	¥ –	¥34,006
Intersegment sales and transfer	–	–	–	–	–
Total sales	29,097	4,909	34,006	–	34,006
Cost of revenue from operations	24,109	4,009	28,118	605	28,723
Operating income	¥ 4,988	¥ 900	¥ 5,888	¥ (605)	¥ 5,283
Assets, depreciation and capital expenditure:					
Assets	¥26,830	¥4,442	¥31,272	¥5,555	¥36,827
Depreciation	437	104	541	40	581
Capital expenditure	2,874	660	3,534	–	3,534

Year ended March 31, 2006	Thousands of U.S. dollars				
	Machine tool business	Specialized machining and other business	Total	Corporate and elimination	Consolidation
Sales and operating income:					
Sales to third parties	$247,697	$41,794	$289,491	$ –	$289,491
Intersegment sales and transfer	–	–	–	–	–
Total sales	247,697	41,794	289,491	–	289,491
Cost of revenue from operations	205,235	34,135	239,370	5,152	244,522
Operating income	$ 42,461	$ 7,660	$ 50,121	$ (5,152)	$ 44,969
Assets, depreciation and capital expenditure:					
Assets	$228,397	$37,819	$266,216	$47,287	$313,503
Depreciation	3,720	886	4,606	338	4,944
Capital expenditure	24,466	5,615	30,081	–	30,081

(b) **Overseas sales**

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries, are as follows:

Year ended March 31, 2005	Millions of yen			
	Asia	North America	Europe	Total
Overseas sales	¥5,769	¥1,945	¥876	¥ 8.590
Consolidated sales				25,004
Ratio of overseas sales to consolidated sales	23.1%	7.8%	3.5%	34.4%

Year ended March 31, 2006	Millions of yen			
	Asia	North America	Europe	Total
Overseas sales	¥10,683	¥2,273	¥589	¥13,545
Consolidated sales				34,006
Ratio of overseas sales to consolidated sales	31.4%	6.7%	1.7%	39.8%

Year ended March 31, 2006	Thousands of U.S. dollars			
	Asia	North America	Europe	Total
Overseas sales	$90,940	$19,349	$5,018	$115,307
Consolidated sales				298,491
Ratio of overseas sales to consolidated sales	31.4%	6.7%	1.7%	39.8%

14 RELATED PARTIES

Significant transactions and balances with related parties as of and for the years ended March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
TOKYO SEIMITSU CO., LTD.			
Sales	¥ –	¥3,172	$27,006
Trade notes and accounts receivable	–	1,866	15,883
Purchases	–	75	636
Trade notes and accounts payable	–	34	288
Payment for purchase of property, plant and equipment	–	9	76
TOSEI ENGINIEERING CORP.			
Sales	12	40	345
Trade notes and accounts receivable	12	43	362

We disclose the transaction with Tokyo Seimitsu Co., Ltd. because Kazuo Fujimori, a corporate auditor of Tsugami Co., Ltd., serves as a representative director of Tokyo Seimitsu.
We also disclose the transaction with Tosei Engineering Corporation, because Shigeru Umekawa, a director of Tsugami Corporation, serves as representative director of Tosei Engineering Corporation.

Notes to Consolidated Financial Statements

Tsugami Co., Ltd and Consolidated Subsidiaries

15 NET INCOME PER SHARE

A reconciliation of the numerators and denominators between basic and diluted net income per share for the years ended March 31, 2005 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
Year ended March 31	2005	2006	2006
Net income	¥2,832	¥5,531	$47,081
Net income unavailable to common shareholders (bounuses paid to directors)	29	39	326
Net income available to common shareholders and assumed conversions	¥2,803	¥5,492	$46,755

	Thousands of shares	
Year ended March 31	2005	2006
Weighted-average number of shares of common stock outstanding for the year	80,042	76,947
Incremental shares from assumed conversions of dilutive stock option	62	616
Weighted-average number of shares of diluted common stock outstanding for the year	80,104	77,563

	Yen		U.S. dollars
Year ended March 31	2005	2006	2006
Net income per share of common stock:			
-Basic	¥35.02	¥71.38	$0.61
-Diluted	34.99	70.81	0.60

16 SUBSEQUENT EVENT

(1) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, were approved by the shareholders at a meeting held on June 23, 2006.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥8 = U.S.$0.07 per share)	¥379	$3,231

(2) Stock option

On June 23, 2006, the reporting entity passed a resolution for issuance of share warrants at the general meeting of shareholders.

Independent Auditors' Report

To the Board of Directors of
Tugami Co., Ltd.

We have audited the accompanying consolidated balance sheets of Tugami Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tugami Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 23, 2006

Corporate Data

as of March 31, 2006

Corporate Name	Tsugami Corporation
Established	March 15, 1937
Head Office	9-10, Horidome-cho 1-chome, Nihombashi, Chuo-ku, Tokyo
Paid-in Capital	10,599 million yen
Number of Employees	423
Directors and Auditors	
Chairman and C.E.O.	Takao Nishijima
Directors	Yoshiharu Kikuchi
	Kazunori Miyamoto
	Tadashi Narisawa
Standing statutory auditor	Ikuo Oomiya
Statutory auditors	Kyouji Umeoka
	Kouichiro Watanabe
	Kazuo Fujimori

Head Office and Plants

Head Office: 9-10, Horidome-cho 1-chome, Nihombashi, Chuo-ku, Tokyo

Nagaoka Plant: 1-1, Higashizao 1-chome, Nagaoka-shi, Niigata Pref.

Shinshu Plant: 3600 Nakagomi, Saku-shi, Nagano Pref.

Sales Network

East Japan Marketing Division (Tokyo)
North Kanto Marketing Division (Omiya)
Suwa Marketing Division (Suwa)
Central Japan Marketing Division (Nagoya)
West Japan Marketing Division (Osaka)
Sendai Office
Takasaki Office
Nagaoka Office
Hitachi Office
Shinshu Office
Hamamatsu Office
Hiroshima Office
Fukuoka Office

Group Companies

Tsugami Machinery Co., Ltd.
Tsugami Shimamoto Ltd.
Tsugami General Service Co., Ltd.
Tsugami Tool Co., Ltd.
Tsugami Precision Co., Ltd.
Tsugami (Thai) Co., Ltd.
Precision Tsugami (China) Corporation

Stock Information

as of March 31, 2006

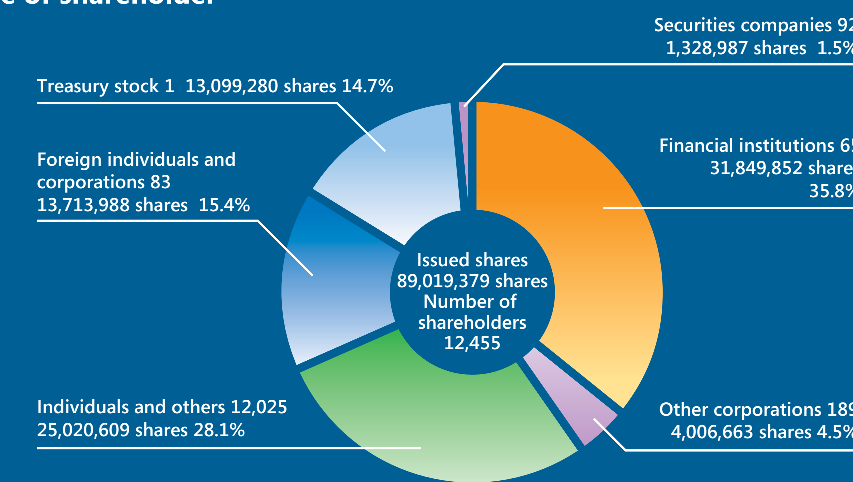
Authorized shares	320,000,000 shares
Issued shares	89,019,379 shares
Number of shareholders	12,455

Major shareholders

shareholders	Investment in the Company		Investment in shareholders	
	Number of shares held	Ownership ratio	Number of shares held	Ownership ratio
	thousands	%	thousands	%
The Master Trust Bank of Japan, Ltd. (Trust account)	6,414	7.20	–	–
Mizuho Trust and Banking Co., Ltd. (Pension trust account for Tokyo Seimitsu Co., Ltd.)	4,592	5.15	–	–
Japan Trustee Services Bank, Ltd. (Trust account)	3,978	4.46	–	–
Trust & Custody Services Bank, Ltd. (Security investment account)	2,308	2.59	–	–
Goldman Sachs International	1,871	2.10	–	–
The Dai-Ichi Mutual Life Insurance Company	1,800	2.02	–	–
Citibank N.A, London, Refund 116	1,586	1.78	–	–
Mori Seiki Co., Ltd.	1,500	1.68	100	0.10
The Hokuetsu Bank, Ltd.	1,484	1.66	462	0.19
Japan Securities Finance Co., Ltd.	1,302	1.46	–	–

Notes:
1. The figures for ownership percentage are truncated to two decimal places.
2. The 4,592 thousand shares held by Mizuho Trust & Banking Co., Ltd. (pension trust account for Tokyo Seimitsu Co., Ltd.) are held in a pension trust account for Tokyo Seimitsu, which reserves the right to instruct on how to exercise voting rights for these shares. The Company holds 65 thousand shares (0.16%) in Tokyo Seimitsu.
3. In addition to the shares in the table above, there are 13,099 thousand treasury stocks.

Shareholder composition by type of shareholder



Stock price and volume (from April 2005 to March 2006)

Year / month		2005									2006		
Stock price / volume		4	5	6	7	8	9	10	11	12	1	2	3
Stock price	High (yen)	504	553	570	599	690	746	745	888	987	994	991	971
	Low (yen)	439	452	521	530	588	635	682	761	851	840	769	773
Volume (thousands of shares)		19,189	27,628	19,305	16,469	21,483	16,932	13,222	19,408	13,696	12,585	12,854	15,019